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Pennsylvania Business Survey

July 1989

THE VERDICT IS IN:

PA Economy has Lost Some Steam

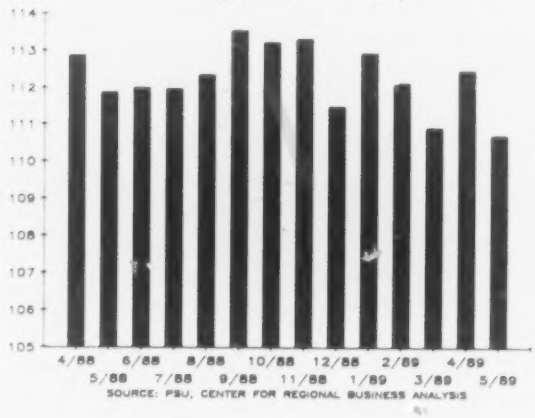
Over the past several years, caution has been exercised in the *Pennsylvania Business Survey* when turning points in economic activity may have been in the offing. Often, analysts respond too quickly on the basis of only a handful of statistics to indications of a shift in economic fortunes. The results have often been misreadings of the economy's true path. Indeed, the current national recovery has been declared dead more than once by a majority of the economic community. The identification of turning points is especially difficult at the regional level in light of a relative absence of timely data. As a result, it is best to avoid brash conclusions until the evidence has weighed considerably on one side or the other for an extended period.

This kind of evidence has mounted in Pennsylvania through the first five months of 1989. **Since signs of weakness first began to appear several months ago, the possibility of a slowdown has been hinted at often in the *Survey*. As evidence of an easing in the pace of growth has mounted, it is now possible to put a good deal of confidence behind such a conclusion.** The index of coincident indicators, designed to measure the direction of current economic activity, has declined in four of the past six months. Additionally, it is quite likely that growth will continue to ease. Recent trends in the index of leading indicators for Pennsylvania suggest that this is likely as it has also declined in four of the past six months (chart).

Still, **a recession does not appear to be in the cards for 1989. Growth should remain positive, albeit slower, as the year unfolds.** If monetary policy officials manage to steer the U.S. economy into a "soft-landing," reducing interest rates and inflationary pressures, Pennsylvania may be primed for another surge in economic activity. (To date, not much thought has been given to the short-term response of the economy to a "soft-landing.") Lower borrowing costs and reduced price pressures would certainly help push activity forward in such areas as construction, retail trade, and manufacturing. Each of these sectors plays a major role in the Pennsylvania economy. Combined, they account for about 40 percent of total economic activity. At one time or another over the past several years, each has helped push the economy forward in the Commonwealth. So, **as conditions now stand, Pennsylvania is in store for slower economic growth, with no recession before 1990. If conditions at the national level unfold in an appropriate manner, it is possible for the expansion to last considerably longer.**

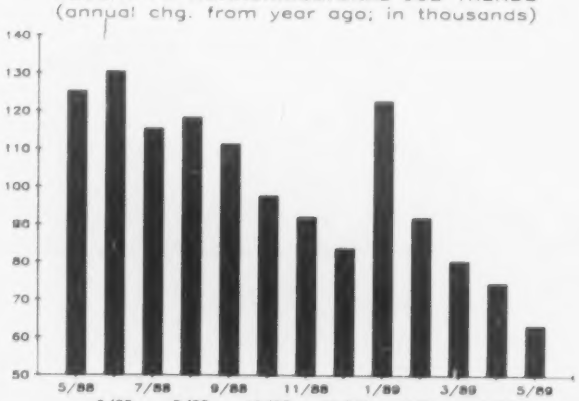
The slowing pace of economic activity is evident in recent trends in nonfarm jobs (chart). The absolute gain in

PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan 1972=100)



SOURCE: PSU, CENTER FOR REGIONAL BUSINESS ANALYSIS

RECENT PA NONAGRICULTURAL JOB TRENDS
(annual chg. from year ago; in thousands)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY; PSU, CTR. FOR REG. BUS. ANALYSIS

nonagricultural jobs has been on a down trend for nearly a year. After totaling 130,000 in June 1988, year-over-year job gains eased in five of the final six months of the year. After a gain of 120,000 over year-ago readings was recorded in January of this year, gains have eased in each of the past four months. Over the past three months, the seasonally adjusted change in job levels from the previous month turned negative. A seasonally adjusted 18,000 jobs have been lost since February, with half of those coming in May. The slowdown in job growth is even apparent in the services industry where the bulk of all new jobs has been created in past years. Manufacturing job levels fell for the fourth consecutive month after seasonal adjustment. Other measures

of the factory sector's health also point to some, though not a great deal of, softening. Production levels, although fluctuating from month to month, remain in a general holding pattern. Still, Pennsylvania manufacturers appear to be considerably healthier than only a few years ago.

Growth in construction activity has also subsided. In May, 4,888 new housing units were authorized by permit in Pennsylvania, down 7.8 percent from a year ago. Through the first five months of the year, close to 20,000 new houses were permitted, a drop of 15.5 percent from the same period in 1988. Over the same five-month period, the number of new nonresidential projects authorized rose 2.1 percent. In 1988, authorized nonresidential projects grew 10.4 percent. (Beginning with this issue of the *PBS*, the permit data will be reported in the tabular format found at the top of page two.) Seasonally adjusted construction job levels have declined in two of the past three months, including a drop of 4,000 in May. Growth in the value of construction contract awards has been minimal and has probably not kept pace with inflation in the building sector during this year's first five months. Awards are up 2.6 percent compared to the first five months of 1988.

New Pennsylvania building permit authorizations (percent change from year ago)

	May	Pct. chg.	Year-to-date	Pct. chg.
Residential	4,888	−7.8	19,754	−15.5
Nonresidential	2,814	2.0	8,757	2.1

Source: U.S. Dept. of Commerce, Bureau of the Census.

Another area in which a slowdown in growth is evident

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1989		1988	1989		1988	1989		1988
	April	*May*	*May*	*April*	*May*	*May*	*April*	*May*	*May*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,097*	5,113	5,050	5,091	5,082	5,021	111.5	111.3	110.0
Nonmanufacturing									
No. of wage and salary jobs (thous.)	4,041*	4,056	3,994	4,035	4,030	3,968	125.2	125.0	123.1
Mining	28	28	29	28	28	29	58.1	57.9	60.4
Contract construction	231	237	231	239	235	228	129.9	127.5	124.1
Transportation	151*	151	149	150	149	147	93.3*	92.4	91.3
Public Utilities	103	103	105	104	103	105	102.8	102.6	104.5
Wholesale trade	270	271	270	271	271	270	122.0	122.1	121.6
Retail trade	881*	887	883	887	886	882	123.6	123.5	123.0
Finance, insurance & real estate	296	297	292	297	297	292	136.3	136.6	134.3
Service & miscellaneous	1,372	1,375	1,329	1,365	1,368	1,322	158.2	158.6	153.3
Federal government	138	139	142	138	138	141	107.4	107.7	110.0
State & local government	571	567	563	558	557	553	95.8	95.5	94.9
Manufacturing									
No. of wage and salary jobs (thous.)	1,054	1,054	1,054	1,056	1,053	1,053	78.7	78.4	78.5
Durable goods	601	601	603	601	599	601	74.2	73.9	74.2
Nondurable goods	453	452	451	455	454	452	85.5	85.2	85.0
Ave. wkly. hrs. worked by prod. workers	40.6	40.5	40.8	40.8	40.7	41.0	103.4	103.0	103.7
Total wkly. person-hours worked (mils.)	29.5	29.4	29.5	29.7	29.5	29.5	77.5	76.7	77.0
Total wkly. payroll (mil. dols.)	309.7*	309.3	300.4	312.2	310.5	301.5	138.9	138.2	134.2
Average hourly earnings (dollars)	10.50	10.52	10.19	10.50	10.54	10.21	179.5	180.2	174.5
Average weekly earnings (dollars)	426.30	426.06	415.75	429.74	428.63	418.37	185.8	185.3	180.9
Steel production (thous. tons)	1,120	1,120	1,195	n.a.	n.a.	n.a.	43.4	45.3	48.4
Industrial electric power sales (mil. kwh)	3,750	3,787	3,693	3,885	3,807	3,748	105.2	103.1	101.5
Mining									
Anthracite coal (thous. net tons)	270	276	296	309	277	312	63.4	56.6	63.8
Bituminous coal (thous. net tons)	5,886	5,739	6,323	5,889	5,102	5,749	83.5	72.3	81.5
Construction contracts awarded (mil. dols.)									
Total	893.3	921.5	919.7*	859.1	835.1	848.7*	267.0	259.6	263.8*
Residential building	453.0	411.8	408.1*	392.0	336.6	330.3*	278.5	239.2	234.7*
Nonresidential building	282.5	325.1	318.8*	339.7	319.4	333.6*	313.1	294.4	307.5*
Nonbuilding (utilities and public works)	157.8	184.6	194.8*	127.4	179.1	184.8*	175.8	247.1	255.0*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,606	5,598	5,381	5,669	5,641	5,424	118.0	117.4	112.9
Unemployed									
No. of persons (thous.)	234	256	281	263	272	295	65.6	67.8	73.5
Rate (percentage of labor force)	4.0	4.4	5.0						
Rate, seasonally adjusted				4.4	4.6	5.1			
Civilian labor force, no. of persons (thous.)	5,840	5,854	5,661	5,933	5,913	5,719	113.9	113.6	109.8
Initial claims for unemployment benefits	69,290	82,601	69,608	77,104	96,212	83,691	53.9	67.2	58.5

Consumer Prices, all items	Urban Indexes (1982-84 = 100) 1989 *April*	1989 *May*	1988 *May*	Percentage Change *Month Ago*	*Year Ago*
U.S. city average	123.1	123.8	117.5	+0.6	+5.4
Philadelphia	126.7	127.9	120.9	+0.9	+5.8
Pittsburgh	119.2	n.a.	114.5	n.a.	+4.1

[1] Total includes workers on strike. * = figure revised † = figure for April 1988 n.a. = data not available

SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

Pennsylvania retail sales
(millions of dollars; pct. chg. from year ago)

	April	Pct. chg.	Year-to-date	Pct. chg.
Total	6,362	- 0.7	24,378	1.7
Durables	2,327	- 6.2	8,792	- 3.0
Bldg. mat.		3.3		- 1.9
Auto dlrs.		-12.6		- 9.5
Furniture		19.9		21.9
Other		- 3.1		6.6
Nondurables	4,035	2.7	15,586	4.5
Gen. mdse.		0.8		- 0.2
Food/grocery		- 0.2		3.0
Gas		8.3		2.1
Apparel		- 1.0		3.6
Eat/drink		15.6		10.6
Drugs		8.1		12.7
Other		- 9.1		4.1

Seas. adj. total: April 6,392
March 6,708

Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census.
Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis.

Industry data are subject to relatively large sampling variability. As a result, only pct. changes are shown.

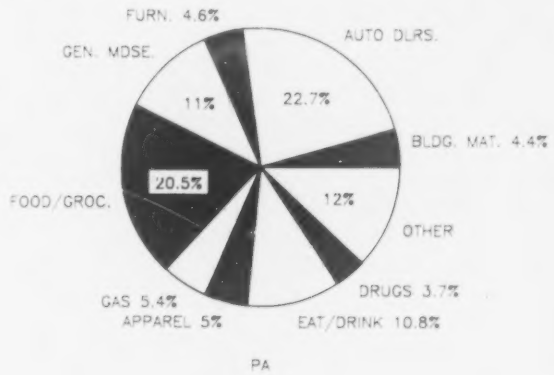
is retail sales. April sales are down from a year ago. On a year-to-date basis, they are up only 1.7 percent. When price gains are averaged in, this suggests that real sales have declined. Sales of durable goods have been especially sluggish, declining 6.2 percent (annual basis) in April and 3 percent on a year-to-date basis. Sales at auto dealerships have been weak. At best, gains in nondurable goods sales have kept pace with inflation in rising 4.5 percent on a year-to-date basis through April to $15.6 billion. The big gainers have been the eating and drinking and drug categories. (Beginning with this issue of the *PBS*, retail sales data will be reported in the tabular format found on page three.) Retail trade jobs have declined three consecutive months after adjusting for seasonality, including a loss of 1,000 in May.

An analysis of retail sales breakdowns by broad industry group shows that the "structure" of Pennsylvania retail sales is very similar to that for the U.S. (chart). Expenditures at auto dealers and for food and groceries account for essentially identical shares of total sales in the State and the nation. Sales of furniture and building materials account for a smaller share of Pennsylvania retail sales than they do nationally, but only slightly. Expenditures at eating and drinking establishments are relatively higher in Pennsylvania, but again, by a rather small amount.

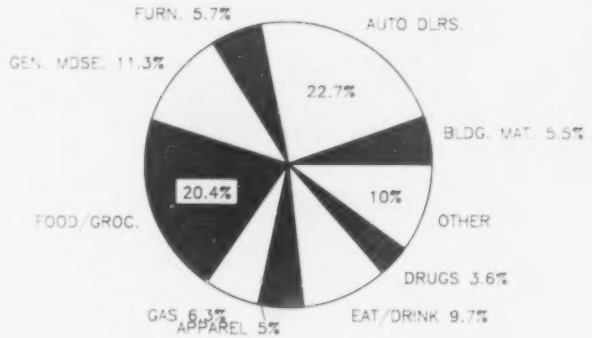
On the resident employment/unemployment front, conditions worsened a bit in May. Employment declined to its lowest reading of the year while jobless counts rose to their highest levels of 1989. Still, monthly ups and downs in these measures of the economy's health have averaged each other out over the past several months, pointing to an overall holding pattern. Indeed, May's weaknesses have been counteracted by improvements in the June report, the first piece of economic news for the month.

While the weakness in several other indicators of economic activity has been documented, employment/unemployment trends during much of the first half of the year have been positive. While employment appears to have set-

1988 RETAIL SALES DISTRIBUTION BY CATEGORY



PA



U.S.

tled at a level just below 5.7 million, seasonally adjusted, if current trends hold through the second half of the year. 1989 will leave a record number of Pennsylvanians employed and the strongest employment growth rate of the decade. Joblessness is also quite low in historical terms.

One of the themes evident in recent issues of the *PBS* is that growth is becoming a bit more balanced across the geographic regions of Pennsylvania. **While, for the most part, the economies in the eastern half of the Commonwealth continue to outperform those in western Pennsylvania, it can be argued that the gap between the two is narrowing.** In some cases, it appears that growth in the west has picked up a bit while in others, growth has showed signs of slowing in the east. This more equitable distribution of growth is apparent in trends in resident employment. Nearly all eastern counties turned in above average employment growth rates (2.5 percent and above) over the 1983-1988 period (chart). Especially strong performances were turned in by several counties in southcentral, southeastern, and northeastern Pennsylvania. Notable exceptions included Philadelphia County and the Scranton-Wilkes-Barre region. Very few counties managed to perform on par with Statewide norms in western Pennsylvania. Those that did included Blair, Butler, Centre, Crawford, and Fulton Counties.

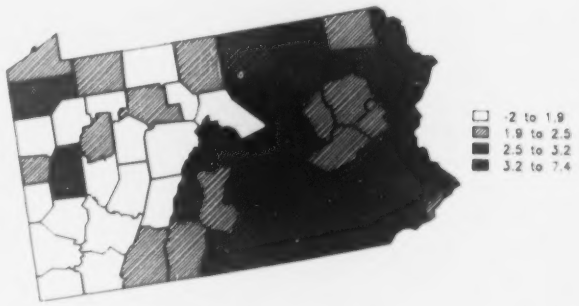
So far in 1989, growth has evened out a bit (chart). Above average growth (4.2 percent and above) stretches along the southern tier of counties as far westward as Somerset County. Erie and Mercer Counties have turned in strong performances. Elk and Cameron Counties have also moved into the "above average" group. The most noteworthy development in the eastern half of the State is a trend toward below average

employment growth in several suburban Philadelphia counties.

Despite the negative slant to this analysis of Pennsylvania economic conditions, it is best not to ignore the positives which dot the economic landscape. In most cases, year-over-year growth in indicators of economic activity remains positive. Where activity has slowed, it has often done so from record levels. The current recovery is six or seven years old, quite long relative to past experiences. Talk of a recession is still premature. There is nothing inherently "wrong" with Pennsylvania's economy. Trends nationwide will determine the extent of the downturn and the timing of the next rebound. As an aside, however, should a "soft-landing" be missed and this downturn evolves into a recession, contentions by some that recent structural changes have left the Pennsylvania economy less subject to wide cyclical swings, especially on the downside, will be put to a test.

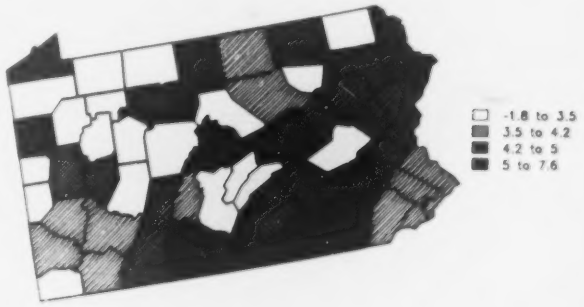
— *William D. Anderson*

1983-1988 AVERAGE ANNUAL GROWTH IN EMPLOYMENT
(percent)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY, BUR. OF RES. AND STATS.

1989 YTD GROWTH IN EMPLOYMENT
(percent)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY, BUR. OF RES. AND STATS.

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